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RAILROAD PROBLEMS

BY

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Exch.

RAILROAD PROBLEMS

The principal problem of the railroads at this time is to secure sufficient revenue to pay operating expenses, taxes, fixed charges, and enough in addition to restore railroad credit.

Involved in this question is the decline in volume of traffic, the general rate level, unregulated and subsidized waterways competition, practically unregulated and partially subsidized highway competition, and competition of Government-owned and operated Federal Barge Lines.

The only method of securing additional revenue is through an increase in freight rates. The railroads have, therefore, presented to the Interstate Commerce Commission an application for an emergency increase in freight rates of 15 per cent, which, if granted, will, it is hoped, afford sufficient revenue to enable them during the present emergency to safely operate their properties, adequately serve the public, partially improve their seriously impaired credit, secure the necessary capital for further improvement of rail facilities and effect further economies in operation.

It is not expected that the proposed increase, if granted, will enable the carriers to earn even approximately a fair return.

The evidence presented and exhibits filed during the hearings proved the urgent need for a substantial increase in rail revenue. In fact, such need was not denied.

Some shippers, however, urged that because of the depression this is an inopportune time to increase freight rates, that the proposed increase would work a hardship on many shippers, and that such increase, if granted, would divert a large volume of traffic to competing transportation agencies, so that there would be little, if any, gain in revenue therefrom.

Some shippers favored an increase. Many failed to appear, indicating that they did not object.

The carriers believe that, although an increase, if granted, may result in some additional diversion of traffic, there will be a substantial gain in revenue.

Growing Competition

In 1920 the volume of traffic moved on the highways, waterways and through the Panama Canal was not large.

In 1929 there was an increase over 1920 of:

- 181 per cent in registered passenger cars;
- 250 per cent in registered motor trucks;
- 820 per cent in motor buses;
- 637 per cent in Panama Canal tonnage;
- 93 per cent in inland waterways tonnage,
excluding the Great Lakes.

In 1929 motor buses carried approximately 422 million passengers $6\frac{3}{4}$ billion passenger miles.

There was a decline in 1930 below 1920 in amount of less than carload freight handled by the railroads of 44 per cent, such decline being due largely to use of motor trucks.

Air transportation is handling a substantial volume of long distance passenger and mail traffic heretofore moved by rail.

Five per cent or more of all commercial tonnage is moved by pipe lines. Such movement has heretofore been of crude and fuel oil, but has recently been extended to gasoline.

The use of oil and natural gas as fuel has caused a large reduction in coal used for rail and industrial purposes, bringing about a large reduction in rail coal tonnage.

Decline in Traffic

The decline in freight carloadings beginning November 14, 1929, has been more severe, more

continuous, and for a longer period of time than ever before in railroad history.

Such decline and a decline of 16.6 per cent in rate levels below those of 1922 are primarily responsible for the present railroad crisis.

Revenue freight ton miles were only 9 per cent greater in 1929 than in 1920, 14.3 per cent less in 1930 than in 1929, and about 17 per cent less in the first 7 months of 1931 than in same period in 1930.

Revenue passenger miles were 33.7 per cent less in 1929 than in 1920, 13.7 per cent less in 1930 than in 1929, and about 18 per cent less in the first 7 months of 1931 than in same period in 1930.

The population of the United States increased approximately 15 per cent between 1920 and 1929.

Taxes

Railroad taxes for the last 5 years have averaged considerably in excess of 1 million dollars per day.

In 1930 taxes equaled 6.6 per cent of total revenues and 25.8 per cent of net revenues, and for the first 6 months of 1931 $7\frac{1}{2}$ per cent of total revenues and 36 per cent of net revenues.

Net Railway Operating Income and Rate of Return

Average net railway operating income for the 5-year period ending December 31, 1929, was 1 billion, 167 million dollars; for 1930, 298 millions less than such average.

Net railway operating income for the first 7 months of 1931 was 26 per cent less than for same period in 1930.

The average annual rate of return on property investment (which includes roadway and equipment, materials and supplies, and cash on hand) of Class I carriers (those carriers having annual

gross revenues of 1 million dollars or over) for the years 1920 to 1929 inclusive, was 4.28 per cent; for 1930, 3.27 per cent; for the first 7 months of 1930, at the rate of 3.48 per cent, and for the first 7 months of 1931, at the rate of 2.19 per cent.

Capital Expenditures and Economies in Operation

Net capital expenditures of 5 billion, 883 million dollars for additions and betterments to railroad property from 1921 to 1930, inclusive, resulted in a substantial increase in average and aggregate capacity of freight cars, tractive power of locomotives, weight of rail, strength of bridges and other structures, and improvement in general of rail facilities.

As a result of these expenditures and efficiency in operation the following economies were effected in 1930 compared with 1920:

An increase of:

- 34 per cent in speed of freight trains;
- 11 per cent in tons of freight carried per train;
- 48 per cent in average daily freight train performance.

A reduction of:

- 30 per cent in freight operating expenses per ton mile (due in part to reduction in prices of fuel and other operating supplies);
- 30 per cent in quantity of fuel required to move a ton of freight one mile;
- 22 per cent in quantity of fuel required to move a passenger train car one mile;
- 49 per cent in claims for loss and damage to freight;
- 71 per cent in amount paid for loss and damage to freight;

- 71 per cent in amount paid per loaded revenue car for loss and damage to freight ;
69 per cent in claims unsettled at end of the year.

Car shortages, congestions and delays, annoying and expensive prior to 1923, have been completely eliminated.

Railroad facilities are adequate to meet all requirements.

Railroad service is adequate, continuous and expeditious. Rail schedules, both freight and passenger, are dependable.

Railroad Credit

Fairman R. Dick's exhibit in Ex-Parte 103 shows that between the high of 1930 and the market price June 1, 1931, there was a drop of 20 points in the market price of legal (that is, legal for investment of funds of savings banks and trustees in New York) refunding bonds of 17 railroad companies; 35 points in legal refunding bonds of 7 railroad companies; 25 points in non-legal bonds and debentures of 24 railroad companies; and an increase in market price of 1.72 points in legal utility refunding bonds of 40 public utility companies.

There has been a further substantial decline in the market price of railroad bonds since June 1, 1931.

Bonds of 35 railroad companies of the aggregate par value of 7 billion, 562 million dollars are now legal investments for savings banks in New York.

On the basis of probable 1931 earnings the bonds of 20 of these companies of an aggregate par value of 5 billion, 748 million dollars will cease to be legal investments.

Savings banks and insurance companies having investments in railroad bonds in excess of $3\frac{1}{4}$ billion dollars appeared in support of the carriers' application for increase in rates. New York

savings banks owns 813 million dollars of such bonds.

Secured bonds and obligations of a railroad company are legal investments for New York savings banks and trustees only when earnings available for fixed charges equal $1\frac{1}{2}$ times such fixed charges in at least 5 of the 6 years (including the last year) next preceding such investment, and if unsecured not less than twice such fixed charges.

Bonds, debentures and preferred stocks of a railroad company are legal investments for New York life insurance companies when earnings applicable to dividends equal at least 4 per cent of its outstanding capital stock in each of the preceding 5 years.

In order to maintain their credit, railroads should have an established earning capacity—the ability to earn under normal conditions sufficient income to pay not only operating expenses, taxes, fixed charges and reasonable dividends, but something in addition thereto, available for improvement of their properties and as a buffer fund in lean years.

In the light of experience, the railroads should have for capital purposes on the average not less than 585 million dollars per year for the next 5 years for necessary improvements and must have 267 million dollars per year to pay maturing funded obligations.

The money necessary to retire funded debt must be obtained, if possible, regardless of cost.

If the present status of railroad credit continues it will be very difficult, if not impossible, to acquire at reasonable cost funds for necessary improvements.

Regulation of Railroads

Railroads are regulated by both National and state governments as to rates, rules and practices.

Railroad rates must be fixed, published, open to inspection and adhered to.

Every shipper must be given equal and impartial treatment.

Railroad accounts must be kept in the manner and form prescribed by the Interstate Commerce Commission.

Railroads cannot construct a new or abandon an existing line, nor issue or dispose of securities without the approval of the Interstate Commerce Commission.

In most states railroads cannot discontinue a passenger train, close a station, discontinue telegraph service therein, nor remove a crossing flagman without the consent of state or municipal authority.

Railroads are regulated as to hours of service of their transportation employes and safety of their equipment.

Railroads are prohibited from engaging in water transportation on rivers, the Great Lakes and other inland waterways and through the Panama Canal.

Regulation makes it impossible for railroads to compete upon permissible terms with vessels operating through the Panama Canal or upon equal terms with vessels operating upon inland waterways.

Any railroad company earning more than 6 per cent upon the value of its property in any year is required to pay one-half of such excess to the United States, even though it may have failed in every other year since the law became effective to earn a fair return.

Regulation of Buses and Trucks

Annual expenditures in recent years for construction and maintenance of highways have approximated 1 billion dollars. Railroad property and income taxes have supplied a considerable part of this sum.

There is no Federal regulation of rates, practices, accounting, service, or responsibility of

operators of motor buses or motor trucks engaged in interstate transportation of passengers or property over public highways.

Such operators may discriminate in rates and service as between shippers and as between passengers.

State regulation of motor buses and motor trucks operating as common carriers in interstate commerce for profit is in most instances inadequate, and regulation of other motor carriers on the highways for profit is negligible.

Common carrier trucks which have fixed rates and are without power to discriminate as to rates or traffic and railroads find it extremely difficult to operate in competition with contract truck operators, who are at liberty to select their traffic and fix such rates as may be necessary to get the business.

It seems strange indeed that, while railroads using their own property are required to give equal and impartial treatment to all, the public highways may be used for discrimination in rates, service and practices.

Inland Waterways Transportation

The Government has expended 468 million dollars in improving and maintaining for navigation purposes the Mississippi-Ohio river system and is spending annually many additional millions for further improvement and maintenance thereof. Similar expenditures are being made on many other streams.

There is no regulation of rates, practices, service, accounting or responsibility of operators on inland waterways.

Shippers have the right to route their traffic to destination when shipping by rail. Such right is denied them when shipping by water.

A railroad is not required to shorthaul itself in favor of another railroad, but can be compelled to do so by the Interstate Commerce Commission in favor of water carriers.

Operators on inland waterways may and do charge one shipper for port-to-port service one rate and another shipper another rate for the same service.

They are not required to charge equal rates or give equal service.

Joint rail and water rates are fixed by the Interstate Commerce Commission, usually at 80 per cent of the all-rail rate, although distances from point of origin to destination will average about 50 per cent greater by water than by rail. The effect of this differential is to divert rail traffic to waterways.

Inland waterways transportation is neither continuous nor dependable. It is frequently delayed by flood, droughts and fog, and suspended in the north for several months each year by freezing of streams.

The cost of improving and maintaining inland waterways for navigation purposes is a part of water transportation costs. If such cost be considered, the total cost of inland waterways transportation is greater than that of rail transportation.

The Inland Waterways Corporation is Government-owned and operated. Its capital is approximately 24 million dollars, supplied by the United States without cost.

It operates the Federal Barge Lines on the Mississippi and Warrior rivers, but makes no contribution to the cost of improving and maintaining such rivers.

Its property and income are exempt from property and income taxes.

Notwithstanding these facts, it has in every year since its inception incurred an operating deficit.

It is a competitor of the railroads for traffic and has the active support and prestige of the Government, particularly the War Department, behind it.

Public Interest in Rail Transportation

Railroad transportation is an indispensable public necessity and, so far as can now be discerned, will continue to be indefinitely the backbone of our National transportation system and our chief reliance for long-distance transportation of freight and passengers and mail and express.

Volume of rail traffic is a controlling factor in cost per ton mile and per passenger mile of rail transportation. Diversion of a substantial volume of rail traffic to highways and waterways substantially enhances the cost per unit of handling the remaining traffic.

Neither railroads nor the public can escape the fact that a percentage of decrease in rail traffic results in a greater percentage of increase in the cost of handling the remaining traffic.

Even though there be some savings to some shippers using highway or waterway transportation, the total cost of all transportation is substantially greater than if handled by rail.

Railroad payrolls and railroad purchases of more than 4 billion dollars annually have been one of the principal factors in resisting depression and will be a most important factor in bringing about a return of prosperity.

Railroads must furnish adequate service at all times, even though passengers be few, tonnage light and revenue inadequate. Industry can generally adjust production to consumption. Rail revenues, therefore, reflect more strongly the effect of business depression than do industrial revenues.

Rail revenues will improve when business improves and volume of traffic increases. A reasonable business revival and removal of discrimination in regulation against the railroads and in favor of their competitors would go far to relieve their present financial stress. A return to normal business, with removal of such discrimination, would largely, if not completely, restore railroad credit.

Failure to accord railroads equality of treatment with their competitors will retard improvement in railroad revenues and restoration of railroad credit.

The public interest is in the maintenance of the integrity of rail transportation.

Suggestions

My personal suggestions are that, in order to maintain adequate railroad service and establish equality of treatment of all shippers, passengers, and transportation agencies, there should be:

An adjustment in railroad rates to enable the carriers in prosperous years to pay operating expenses, taxes, fixed charges, reasonable dividends, and accumulate a reasonable reserve for lean years, so as not to be compelled to seek rate increases during periods of depression.

Substitution for the recapture provisions of Section 15a of the Interstate Commerce Act of a requirement that each carrier earning in any year in excess of 6 per cent on its property investment place one-half of such excess in a reserve fund to be established and maintained by such carrier for paying interest on bonds, other fixed charges, and dividends on common stock, as may be necessary, in any year in which net railway operating income is less than 6 per cent on its property investment.

Co-ordination of all transportation facilities and services in such manner that each facility will be so employed as to best serve the public needs, and that railroads be authorized to engage in motor, highway, water and air transportation on equal terms with others.

Reasonable, just and constructive regulation of the rates, practices, accounting, responsibility and service of all operators of motor buses and motor trucks operating on the highways for profit and the imposition of a fair charge for use of the highways by such buses and trucks.

Regulation of intercoastal and inland waterways traffic by the Interstate Commerce Commission, with direction to prescribe reasonable, just and non-discriminatory water rates, practices and service requirements.

Removal of all restrictions on railroads competing for intercoastal traffic through the Panama Canal.

Discontinuance of competition by the United States with railroads and the subsidizing, directly or indirectly, of other forms of transportation.

NOTE:—Railroad statistics used herein are taken from exhibits filed in Ex-Parte 103 and from compilations of the Bureau of Railway Economics.

